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IN THE

Supreme Court of the United States

October Term, 1947

No. .....

KAMMERER CORPORATION, a corporation, and BAASH-ROSS TOOL COMPANY, a corporation,

Petitioners,

vs.

IRA J. McCULLOUGH,

Respondent.

KAMMERER CORPORATION, a corporation, and BAASH-ROSS TOOL COMPANY, a corporation,

Petitioners,

vs.

IRA J. McCULLOUGH,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE NINTH CIRCUIT.

To the Honorable Fred M. Vinson, Chief Justice, and to the Associate Justices, of the Supreme Court of the United States:

Petitioners, Kammerer Corporation and Baash-Ross Tool Company, respectfully pray the grant of a Writ of Certiorari to review a judgment of the United States Circuit Court of Appeals for the Ninth Circuit entered

February 26, 1948 in the above-entitled consolidated actions. The transcript of record in eight volumes is supplied herewith.

Jurisdiction.

The jurisdiction of this Court is invoked under Section 240(a) of the Judicial Code, as amended by the Act of February 13, 1925 (28 U.S.C. 347), and under the Anti-Monopoly laws, Title 15 U.S.C., Ch. 1. The matter to be reviewed arises in a suit under the patent laws of the United States, Judicial Code Section 24(7), 28 U.S.C. 41(7).

Summary Statement.

The judgment sought to be reviewed dismisses the above consolidated actions upon the ground that the licensing contract between your petitioners and the operations thereunder substantially prejudiced the public interest in that they stifled new competitive invention and suppressed competitive forces which stimulate newer and better products, and that the contract's covenants strike at the very purpose of the patent statute and its constitutional basis.

The majority and minority opinions of the Circuit Court of Appeals for the Ninth Circuit (C.JJ. Denman, Bone and Orr), one directly contrary to the other, appear in Volume IIa of the certified transcript of record herein (pp. 96-119; 76 USPQ 503, not yet officially reported).

The above suits have been pending since 1935 and involved infringement of two United States patents by respondent McCullough. The two patents originally involved were the Kammerer patent 1,277,600 and the Reilly and Stone patent 1,625,391. Upon September 3, 1935 the

suits were dismissed upon petitioners' motion [R. III, 150] as to the Kammerer patent 1,277,600 [R. V, 982] due to its expiration. The Reilly and Stone patent 1,625,391 was adjudged valid and infringed by the District Court [R. III, 118, 123; 39 F.Supp. 213], which judgment was affirmed by the Court of Appeals (C.JJ. Denman, Mathews and Stephens) [R. VI, 1084; 138 F.2d 482].

Respondent McCullough filed a petition in this Court praying a writ of certiorari to said Court of Appeals to review that court's said judgment. Such petition urged five purported "Questions Presented"[1] This Court denied this petition (322 U.S. 739). Upon petition for rehear-

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[1]"1. Do a patent owner and licensee act against public policy, in restraint of trade and in violation of the Anti-Monopoly laws when by agreement the patent owner restrains the licensee 'not to manufacture or use or rent any device which will be in competition with the device or devices covered by this license agreement'?

"2. Do a patent owner and licensee act against public policy, in restraint of trade and in violation of the Anti-Monopoly laws when by agreement the licensee restrains the patent owner from manufacturing, selling, renting, licensing, using or in any way doing business with devices 'which will come or be in competition with the device or devices covered by this agreement'?

"3. Do a patent owner and licensee act against public policy, in restraint of trade and in violation of the Anti-Monopoly laws when they agree that the licensee may rent in this country, but not sell, devices made in accordance with such patent at a fixed charge of $190 per cut, of which amount 'a royalty of fifty per cent (50%) of the gross earnings accruing by the use of said devices by the Licensee' is paid to Licensor, if the rental charge and royalty included the use of an unpatentable commodity, namely the knowledge, service and skill of workmen who operated the device?

"4. Should a Court of Equity refuse to lend its aid, under the circumstances herein disclosed, to enforce the patent grant?

"5. Was the Circuit Court of Appeals for the Ninth Circuit in error, when in the majority opinion the patent in suit was held valid?" (Petition for Certiorari, pp. 6-7.)

ing petitioner emphasized (p. 3) the following as "Reasons for Rehearing":

> "1. In granting judgment for respondents and thus necessarily sustaining the validity of the license agreement between respondents, the decisions below are in conflict with the decision of the Circuit Court of Appeals for the Third Circuit in *National Lockwasher Co. v. George K. Garrett Co., Inc.*, 137 F.(2d) (1943), and are also inconsistent with the *rationale* of prior decisions of this Court and of the Circuit Court of Appeals for the Ninth Circuit."

concluding such petition for rehearing (p. 9):

> "The validity of the license agreement by the respondents was before the courts below, inasmuch as petitioner pleaded an unclean hands defense and the facts necessary to sustain such defense are in the Record. In any event, the issue is one of law, is being here urged and may, and should, be taken cognizance of by this Court because of its importance to the public. *Muncie Gear Works, Inc. v. Outboard, Marine & Manufacturing Company*, 315 U.S. 759, 768 (1942); *Nachman Spring-Filled Corporation v. Kay Mfg. Co.*, 139 F.(2d) 781, 783 (C.C.A. 2d, 1943)."

This Court thereupon granted certiorari limited to the first four presented questions, excluding therefrom the question of patent invalidity (322 U.S. 766).

Thereafter this Court, in a *per curiam* opinion, dismissed the writ of certiorari, say (323 U.S. 328-9):

> "Thus the only question for which we granted certiorari is one not properly raised, litigated or passed upon below. (Citing cases.) The grounds asserted

for the allowance of certiorari are inadequately supported by the record, and the writ is therefore dismissed."

Thereafter the Court of Appeals (C.JJ. Denman, Mathews and Stephens) "without altering our judgment affirming the judgments of the District Court as to the validity of the patent and its infringement" otherwise amended its judgment so that the District Court "may entertain a motion or motions based upon such contention (that the license agreement violates the public interest) * * * and take such action thereon as it may determine" (148 F.2d 525, 526).

Thereupon respondent McCullough repeated in the District Court his motion:

> "* * * for modifications of its Interlocutory Judgments herein, * * * and for Final Judgments providing that the plaintiffs have used the patent in suit contra to the public interest, and that the complaints be dismissed with costs to defendant.
>
> "The grounds for this motion are that plaintiffs have used the patent in suit contrary to the public interest and in restraint of trade, for which reasons they come into a Court of Equity with 'unclean hands' and are not entitled to accountings of profits and damages for patent infringement." [R. I, 2-4.]

The District Court afforded respondent McCullough a full opportunity to present any additional or supplemental evidence. Respondent declined such opportunity, stating:

> "* * * defendants did not intend to and would not offer any additional evidence, but merely argue the motion on the basis of the record already before the court." [R. I, 19.]

The District Court denied this motion [R. I, 15-16].

Respondent McCullough appealed from such denial. The Court of Appeals (C.JJ. Denman, Mathews and Orr) dismissed such appeal for want of jurisdiction (156 F.2d 343; C. J. Denman dissenting). Upon certiorari this Court held the Circuit Court of Appeals had jurisdiction of such appeal (91 L.ed. Adv. Op. 1004).

The record upon which the Court of Appeals grounded its judgment of February 26, 1948 (of which your petitioners seek a review) is thus identical with the record before this Court upon which this Court dismissed its writ of certiorari (323 U.S. 327). The sole exception is the District Court's denial of respondent's motion, its findings and conclusions of law thereon [R. IIa], and the proceedings (in the Court of Appeals) subsequent to this Court's determination that the Court of Appeals had jurisdiction of his appeal [R. IIa].

The three judges of the Court of Appeals were in agreement that the license agreement did not illegally suppress the "sale of the devices disclosed in the Kammerer and Reilly and Stone patents" or illegally fix "the price of the rental of the tool" or contain "Ties in the sale of unpatented services." Thus the majority opinion[2] limits

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[2]"We hold that the evidence establishes that the licensing contract and the operations thereunder substantially prejudiced the public interest in that they stifled new competitive invention and suppressed competitive forces which stimulate newer and better products, and that the contract's covenants strike at the very purpose of the statute and its constitutional basis. * * *." [R. IIa, 105; 76 USPQ at 508.]

illegality of the license agreement to, and rests its judgment solely upon, its conclusion of illegality of, and upon undisclosed operations under, paragraphs 11 and 12[3] in "stifling new competitive invention" and "suppression of competitive forces which stimulate newer and better products." As pointed out by Circuit Judge Bone, the record contains no evidence of any actual legal restraint or suppression of competition.[4]

George Kammerer was the inventor and sole owner of the Kammerer patent. John B. Reilly and Charles H.

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[3]"11. The Licensee covenants and agrees during the term of this license agreement not to manufacture or use or rent any device which will be in competition with the device or devices covered by this license agreement.

"12. The Licensor covenants and agrees that during the term of this agreement, not to manufacture, sell, rent, license, use, or in any way do business with the device or devices covered by this agreement or with devices which will come or be in competition with the device or devices covered by this agreement."

[4]"Such considerations suggest pertinent inquiries. How does this agreement, *on its face*, purge, or tend to purge, the market of all such competing devices (as in the Lock Washer case, *supra*)? Where in the contract are the provisions, which in themselves, would actually create an unlawful monopoly in a business field? The court postulates the existence of an illegal 'monopoly' by an inference arising solely from the face of the agreement—not from the evidence in the case. It has to *assume* the existence of *some* competition which was illegally restrained and/or suppressed by means of the Kammerer-Baash agreement. If actual or potential competition was not restrained or suppressed by the Kammerer-Baash agreement, why strike down the agreement? Actual legal restraint or suppression of competition, as a *fact* in this case, has not been established by evidence. * * *." [R. IIa, 112; 76 U.S.P.Q. at 511.]

Stone were employees of the L. F. Baash Perforating Co., of which L. F. Baash was the controlling stockholder. "The Reilly and Stone invention and the tool itself was made in the shop of the L. F. Baash Perforating Co., on the company's time and with the company's material" [R. I, 20; F.F. 1]. Your petitioner Kammerer Corporation "was merely a holding company organized to embrace the rights of both the Kammerer invention and patent and the Reilly and Stone invention and patent" [R. I, 21; F.F. 3]. The Reilly and Stone device was an improvement over the device of the Kammerer patent. Kammerer notified the Baash Company and Reilly that the Reilly and Stone device was an infringement. These various claims of right were compromised by the organization of your petitioner Kammerer Corporation and the Baash Company accepting the exclusive license [Ex. 7] in lieu of its rights in the Reilly and Stone invention and tool. Your petitioner Kammerer Corporation has never engaged in any business but simply held the legal title to the patents subject to the exclusive license to the Baash Company. "There never has been any competition actual or possible between Plaintiff, Kammerer Corporation, and Plaintiff, Baash-Ross Tool Company" [R. I, 22; F.F. 4].

Neither George Kammerer, Reilly, Stone or L. F. Baash personally were parties to the license agreement. The covenants of paragraphs 11 and 12 thereof were covenants between the two corporations and did not bind Kammerer, Reilly, Stone or Baash, or any other person, individually.

Questions Involved.

1. Are the mutual covenants of paragraphs 11 and 12 of the license agreement (a) illegal *per se,* (b) substantially prejudicial to the public interest as stifling new competitive invention or suppressing competitive forces which stimulate newer and better products, or (c) "strike at the very purpose of the (patent) statute and its constitutional basis"?

2. Do the covenants of paragraphs 11 and 12 of the license agreement unduly or unreasonably restrain trade or competition or are they reasonable mutual restraints of petitioners necessary to protect their respective interests under the patent? Is this question to be adjudged upon the facts of the case or upon an assumption by the court of some undisclosed competition which is likewise assumed to be illegally restrained or suppressed by the license agreement?

3. Did the license agreement, *on its face,* purge, or tend to purge, the market of all competing devices as did the combination of manufacturers in the *National Lockwasher Co. v. George K. Garrett Co.* case, 137 F.2d 255 (C.C.A. 3)?

Reasons for Granting the Writ.

The discretionary power of this Court is invoked upon the following grounds:

1. Because of the importance to the public of an authoritative determination by this Court of the questions involved.

2. Because the decision of the Circuit Court of Appeals in holding that the covenants of paragraphs 11 and 12 of the license agreement are illegal *per se* is in conflict with the decisions of this Court in *Transparent-Wrap Machine Corp. v. Stokes & Smith Co.,* 329 U.S. 637; *United States v. U. S. Gypsum Co.* (decided March 8, 1948, not yet officially reported, 92 L.ed. Adv. Op. 552); *United States v. Line Material Co.* (decided March 8, 1948, not yet official reported, 92 L.ed. Adv. Op. 510); *Board of Trade v. United States,* 246 U.S. 231, 238; *Appalachian Coals Co. v. United States,* 288 U.S. 344, 359-61; *Cincinnati P. B. S. & P. Packet Co. v. Bay,* 200 U.S. 179, 184; *E. Bement & Sons v. National Harrow Co.,* 186 U.S. 70, 92; *Anderson v. United States,* 171 U.S. 604, 615-16; *Kinsman v. Parkhurst,* 18 How. 289; *Standard Oil Co. v. U. S.,* 283 U.S. 163; *United States v. General Electric Co.,* 272 U.S. 478; and in *Fosburgh v. California & Hawaiian Sugar Refining Co.,* 291 F. 29 (C.C.A. 9); *Universal Sales Corp. v. California Press Mfg. Co.,* 20 Cal.2d 751, 771; *Kirk Lashelle Co. v. Paul Armstrong Co.,* 263 N.Y. 79, 188 N.E. 163, 167; *Ripy v. R. T. Hall Paper Mills,* 41 Okla. 20, 51 L.R.A. (N.S.) 33, 35; *Blount Mfg. Co. v. Yale & Towne Mfg. Co.,* 166

F. 555, 558; *United States v. Paramount Pictures,* 66 F.Supp. 323, 341; *Daniels v. Brown Shoe Co.,* 77 F.2d 899 (C.C.A. 1).

3. Because the decision of the Circuit Court of Appeals is in conflict with *Stokes & Smith Co. v. Transparent-Wrap Machine Co.,* 161 F.2d 565 (C.C.A. 2), *Daniels v. Brown Shoe Co.,* 77 F.2d 899 (C.C.A. 1), and *Appalachian Coals Co. v. United States,* 288 U.S. 344, 359-61, that "the mere fact that the parties to an agreement eliminate competition between themselves is not enough to condemn it."

Wherefore, your petitioners respectfully pray that this petition be granted and that a Writ of Certiorari be issued directed to the Circuit Court of Appeals for the Ninth Circuit.

FREDERICK S. LYON,
LEONARD S. LYON,
MARK L. HERRON,
Attorneys for Petitioners.

IN THE

Supreme Court of the United States

October Term, 1947

No. .....

KAMMERER CORPORATION, a corporation, and BAASH-ROSS TOOL COMPANY, a corporation,

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KAMMERER CORPORATION, a corporation, and BAASH-ROSS TOOL COMPANY, a corporation,

Petitioners,

vs.

IRA J. MCCULLOUGH,

Respondent.

BRIEF IN SUPPORT OF PETITION.

1. Opinions of the Courts Below.

The opinion and dissenting opinion of the Circuit Court of Appeals for the Ninth Circuit appear in Volume IIa, pp. 96-119, of the transcript of record herein (not yet officially reported; 76 USPQ 503). The opinion of the District Court (not reported) appears in the transcript of record herein [R. I, 46].

2. Jurisdiction.

The jurisdiction of this Court is invoked under Section 240(a) of the Judicial Code, as amended by the Act of February 13, 1925 (28 U.S.C. 347), and under the Anti-Monopoly laws, Title 15 U.S.C., Ch. 1. The matter to be reviewed arises in a suit under the patent laws of the United States, Judicial Code Section 24(7), 28 U.S.C. 41(7).

3. The Judgment of the Circuit Court of Appeals Herein Sought to Be Reviewed.

This judgment appears in Volume IIa, p. 120. It was filed and entered February 26, 1948. No petition for rehearing was made either by your petitioners or by respondent McCullough. The judgment reverses the interlocutory decree of the District Court adjudging that your petitioners recover from respondent McCullough profits and damages arising from and incurred by reason of infringement of the Reilly and Stone patent and appointing a master to take and stay such accounting. As stated in the conclusion of the majority opinion of the Circuit Court of Appeals, this judgment of reversal is based upon a holding "that the evidence establishes that the licensing contract and the operations thereunder substantially prejudiced the public interest in that they stifled new competitive invention and suppressed competitive forces which stimulate newer and better products, and that the contract's covenants strike at the very purpose of the (patent) statute and its constitutional basis." [R. IIa, 105; 76 USPQ at 508.]

4. Statement of Case.

The consolidated suits of your petitioners against respondent McCullough were based upon infringement of United States Letters Patent. Before the trial the Kammerer patent 1,277,600 expired and was dismissed from the litigation. The District Court adjudged the Reilly and Stone patent 1,625,391 valid and infringed. This judgment was affirmed by the Circuit Court of Appeals (138 F.2d 482) and has become final, this Court having denied certiorari to review such judgment (322 U. S. 739).

The present petition for writ of certiorari does not involve any question of patent validity or infringement.

Review of the Circuit Court of Appeals' judgment of February 26, 1948 is asked because of the public importance of the question involved and because the majority opinion of the Circuit Court of Appeals is in conflict with sundry decisions of this Court and of the several United States Circuit Courts of Appeals.

The controversy so adjudged arises solely from the mutual covenants of your petitioners in a license contract [R. I, 5-11].

George Kammerer was the inventor and sole owner of the Kammerer patent 1,277,600. John B. Reilly and Charles H. Stone in the summer of 1922 were employed by the L. F. Baash Perforating Company at Brea, California. Reilly was the shop foreman and Stone a machinist [R. III, 154]. The company was in the business of building and renting a general line of cable tools and rotary fishing tools. At that time it was operated by Lawrence F. Baash [R. III, 278] and subsequently was taken over by Baash-Ross Tool Company, one of your petitioners herein. Your petitioner Kammerer Corpora-

tion was organized by and on behalf of George Kammerer, John B. Reilly and Charles H. Stone to own and hold the Kammerer patent and the Reilly and Stone invention and patent. The Kammerer Corporation was never engaged in any business. It never possessed any shop, tools or machinery, but was solely a patent holding company. Its property consisted solely of these patent rights.

The Reilly and Stone tool was manufactured in the L. F. Baash Perforating Company's shop with the company's material and on the company's time and with its permission [R. III, 160-162]. Kammerer asserted the Reilly and Stone tool to be an infringement of the Kammerer patent [R. III, 161-163]. Upon Baash's return from Europe, in the Fall of 1922, he was immediately shown the new Reilly and Stone tool and realizing "Yes, that will do the work," instructed that they continue to operate it [R. III, 281]. However, knowing of the Kammerer tool, he "did not want * * * to lay myself open for a law suit" and undertook to work out an arrangement that would take care of all of those having rights in the invention [R. III, 282]. Baash was to retain his right to manufacture and operate the tool, but as the tool was an improvement upon the tool of the Kammerer patent, it was necessary to include Kammerer in any arrangement. The best way in which this could be done was to bring Kammerer together with Reilly and Stone and then obtain a license for the use of both the Kammerer and the Reilly and Stone inventions. As explained by Baash in his testimony, "I negotiated with George Kammerer, on the one side, and Reilly and Stone on the other side, * * * and I offered to build the tool, operate it, and pay them 50 per cent of the gross receipts for all rental

tools, and all sales to foreign countries" [R. III, 282]. Your petitioner Kammerer Corporation was thereupon organized. One-half of its stock went to the owner of the Kammerer patent and the other half to Reilly and Stone [R. III, 255]. The newly formed corporation (Kammerer Corporation) in turn granted to the Baash Company the exclusive license out of which this controversy arises. By this arrangement the rights of all parties were given the recognition to which they were respectively entitled. The owners of both the Kammerer and the Reilly and Stone inventions participated equally through the stock given them in your petitioner Kammerer Corporation. Thus, out of the royalties paid by Baash, one-half were to go to Reilly and Stone. This was in accord with Baash's policy of rewarding such of his employees as might invent a new tool for him [R. III, 281].

The agreement recognized that Baash should be the one to manufacture and operate the tool. This was consistent with the fact that the inventors of the tool were employees of Baash and that the tool had been invented in the course of their employment and at the expense of Baash. He in turn recognized their ownership of the new invention. In accordance with the custom in the oil industry of handling fishing tools, of which the Reilly and Stone tool is one, the agreement provided that Baash should make and operate the tool but should not sell the tool. To enable the business to be so operated on a profitable basis, Baash's right was made exclusive. Because the tool was an improvement upon the prior Kammerer patent, it was necessary that the rights granted Baash be extended under both the Kammerer patent and the patent to be issued on the Reilly and Stone improvement. This was done by the formation of your petitioner Kam-

merer Corporation. The Kammerer patent and the application for the Reilly and Stone patent were assigned to this corporation.

The license agreement represents merely a normal and useful contract designed to promote the success of a common enterprise. The object of the parties in entering into the agreement was merely to protect their respective interests. There was a complete absence of any intention or purpose to monopolize or restrain trade. The agreement imposes no restriction whatever upon any member of the public who might patronize the new tool. In lieu of restraining competition, it may be fairly said that the agreement assures and promotes competition.[1] It imposes no restriction upon any user of like tools. All are free to patronize your petitioners or to use any available competitive tools. The Reilly and Stone tool could not have been manufactured or used or sold without a license under the Kammerer dominating patent. No monopoly or restriction of competition in the business of cutting off or removing stuck pipe in wells resulted from this license agreement. Neither an attempt to nor any control of such industry was the result of the license agreement. "* * * there must be a definite factual showing of illegality. Board of Trade v. United States, 246 U.S. 231, 238." (*Standard Oil Co. v. U. S.*, 283 U.S.

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[1]The license agreement provided for a reconciliation of patent rights and a division of royalties according to the values contributed by the parties. The making of such agreement as tending to promote rather than restrain competition has the approval of this Court: "* * * An interchange of patent rights and a division of royalties according to the value attributed by the parties to their respective patent claims are frequently necessary if technical advancement is not to be blocked by threatened litigation. * * *" (*Standard Oil Co. v. U. S.* 283 U. S. 163, 171.)

163, 179.) The record contains no such proof and no such proof was even attempted.

The majority opinion of the Circuit Court of Appeals is based upon assumed illegality *per se* of the mutual covenants of your petitioners contained in paragraphs 11 and 12 of the license agreement. That illegality is predicated upon an assumption of suppression or stifling of new competitive inventions. Neither of your petitioner corporations are or can be inventors under the patent laws; natural persons only are therein recognized as inventors. Only natural persons can be inventors or authors under the Constitution. As pointed out in the dissenting opinion of Circuit Judge Bone, "The evidence we face completely fails to demonstrate that (1) the *practices* of appellees contravened public interest, (2) stifled new competitive invention, (3) suppressed competitive forces which stimulate newer and better products." [R. IIa, 115; 76 USPQ at 512.]

5 **The Decision of the Court of Appeals That the Mutual Covenants of Paragraphs 11 and 12 Are Illegal Per Se Is in Conflict With the Decisions of This Court and of the Circuit Courts of Appeals.**

In *Appalachian Coals v. United States,* 288 U.S. 344, 360-361, this Court stated:

> "* * * The decisions establish, said this Court in Nash v. United States, 229 U. S. 373, 376, 57 L.ed. 1232, 1235, 33 S.Ct. 780, 'that only such contracts and combinations are within the act as, by reason of intent or the inherent nature of the contemplated acts, prejudice the public interests by *unduly* restricting competition or unduly obstructing the course of trade.' (Citing cases.)

"In applying this test, a close and objective scrutiny of particular conditions and purposes is necessary in each case. Realities must dominate the judgment. *The mere fact that the parties to an agreement eliminate competition between themselves is not enough to condemn it.* 'The legality of an agreement or regulation cannot be determined by so simple a test, as whether it restrains competition. Every agreement concerning trade, every regulation of trade, restrains.' Board of Trade v. United States, 246 U.S. 231, 62 L.ed. 683, 38 S.Ct. 242, Ann. Cas. 1918D, 1207, *supra*. The familiar illustrations of partnerships, and enterprises fairly integrated in the interest of the promotion of commerce, at once occur. The question of the application of the statute is one of intent and effect, and is not to be determined by arbitrary assumptions. * * *" (Emphasis supplied.)

In *Cincinnati P. B. S. & P. Packet Co. v. Bay,* 200 U.S. 179, 184, it was said:

"* * * A contract is not to be assumed to contemplate unlawful results unless a fair construction requires it upon the established facts. * * *

"* * * But even on this supposition it is manifest that interference with such commerce is insignificant and incidental, and not the dominant purpose of the contract, if it actually was thought of at all. * * *"

As said by this Court in *Board of Trade v. United States,* 246 U.S. 231, 238:

"* * * Every agreement concerning trade, every regulation of trade, restrains. To bind, to restrain, is of their very essence. The true test of legality is whether the restraint imposed is such as merely

regulates and perhaps thereby promotes competition, or whether it is such as may suppress or even destroy competition. To determine that question the court must ordinarily consider the facts peculiar to the business to which the restraint is applied; its condition before and after the restraint was imposed; the nature of the restraint, and its effect, actual or probable. The history of the restraint, the evil believed to exist, the reason for adopting the particular remedy, the purpose or end sought to be attained, are all relevant facts. * * *"

In *Daniels v. Brown Shoe Co.*, 77 F.2d 899, 901 (C.C. A. 2), it is said:

"* * * The question whether the agreements as a whole are void as being in restraint of trade or as creating a monopoly presents a matter of fact to be determined on the hearing. It cannot be said as a matter of law on the face of the agreements that they were of that character."

In *Stokes & Smith Co. v. Transparent-Wrap Machine Co.*, 161 F.2d 565, 567 (C.C.A. 2), the court said:

"* * * and it is hornbrook law that not every restraint of competition is 'unreasonable' and that only 'unreasonable' restraints are unlawful. All this the plaintiff should have developed at the trial, if we were to pass upon it; upon the record as it comes to us, no restraint of trade appears—to say nothing of any 'unlawful' restraint."

The majority opinion of the Circuit Court of Appeals does not differentiate between reasonable and unreasonable restraints. Its failure to recognize and apply this principle or rule is therefore directly in conflict with

this Court's opinion in *United States v. United States Gypsum Co.* (decided Mar. 8, 1948, 92 L.ed. Adv. Op. 552, 571): "We apply the 'rule of reason' of Standard Oil Co. v. United States, 221 US 1, * * * to efforts to monopolize through patents as well as in non-patent fields."

The majority opinion disregards the established principles of law that "The mere fact that the parties to an agreement eliminate competition between themselves is not enough to condemn it" (*Appalachian Coals v. United States,* 288 U.S. 344, 360); that "A contract is not to be assumed to contemplate unlawful results unless a fair construction requires it upon the established facts" (*Cincinnati P. B. S. & P. Packet Co. v. Bay,* 200 U.S. 179, 184); that "The true test of legality is whether the restraint imposed is such as merely regulates and perhaps thereby promotes competition, or whether it is such as may suppress or even destroy competition" (*Board of Trade v. United States,* 246 U.S. 231, 238); and that "* * * not every restraint of competition is 'unreasonable' and that only 'unreasonable' restraints are unlawful" *Stokes & Smith Co. v. Transparent-Wrap Machine Co.,* 161 F.2d 565, 567 (C.C.A. 2)).

The majority opinion of the Circuit Court of Appeals makes no reference to either "reasonable" or "unreasonable" restraint. It does not consider this question of fact. In conflict with these foregoing decisions, it merely arbitrarily assumes a condition and an effect unsupported by the facts of the case.

> "* * * The court postulates the existence of an illegal 'monopoly' by an inference arising solely from the face of the agreement—not from the evidence in the case. It has to *assume* the existence of *some*

competition which was illegally restrained and/or suppressed by means of the Kammerer-Baash agreement. If actual or potential competition was not restrained or suppressed by the Kammerer-Baash agreement, why strike down the agreement? Actual legal restraint or suppression of competition, as a *fact* in this case, has not been established by evidence. * * *" [Dissenting opinion C. J. Bone, R. IIa, 112; 76 USPQ at 511.]

The restraints of paragraphs 11 and 12 are operative only between and upon the parties to that agreement, *i. e.*, the two corporations, your petitioners herein. The only objection (illegality *per se*) thereto upon which the majority opinion of the Circuit Court of Appeals is predicated is an *assumed* substantial prejudice "of the public interest in that they stifled new competitive invention and suppressed competitive forces which stimulate newer and better products." It is *assumed* because (1) there is no proof in the record of any actual stifling or suppression, and (2) because these covenants are legally incapable of any such effect, as they are solely the mutual covenants of the corporate petitioners herein. Your petitioners have not required any of the public to assume any such obligation as a condition to the use of the Reilly and Stone tool. Nor do they even bind any individual (connected with either of your petitioners) who might or could become an inventor.[2]

---

[2]"Paragraph 11 applying to the *licensee* is equally void of language suggestive of such repression of 'invention,' or of the 'inventive instinct.' As indicated, all agents, officers and employees of both licensor and licensee were left entirely free (under the language of the agreement) to invent and give full play to their inventive instincts (and sell their invention or inventions." Dissenting opinion herein. [R. IIa, 108; 76 USPQ at 509.]

The tortuous and devious reasoning of the majority opinion is evidenced by its statement: "With regard to the agreement's compulsion on the patentee not to exercise the inventive power of its general manager and other employees in privity with it, in creating competing devices, the purpose of the patent law is to encourage, not to hamper, invention." [R. IIa, 101; 76 USPQ at 506.] Without any proof establishing the fact, it is thus *assumed* that "the general manager and other employees" are in some mysterious manner obligated to invent and to assign their inventions to your petitioners. Such unwarranted assumption cannot sustain a finding of suppression or stifling of invention. *Scott Paper Co. v. Marcalus,* 326 U.S. 249, neither establishes nor applies any such principle. It would seem unnecessary to point out that no such obligation is evidenced by the challenged agreement or existent in law.

The only facts established by the record *repudiate* any stifling or discouraging of invention. In his dissenting opinion, Circuit Judge Bone specifically points this out [R. IIa, 115-117; 76 USPQ at 512-13]:

> "* * * Since appellant demands that we deny to appellees the relief they seek in this court because their damage claim is tainted with illegality, it is in order to demonstrate by the record that appellees did not 'stifle' or 'discourage' any real inventive genius of appellant. (Reference in the court's opinion to others whose inventive genius may have been 'stifled,' is too vague to justify comment.) Appellees did not harm him; he was the author of his own business misfortunes and we should not charge them to appellees by a process of indirection.

"How appellant worked his own undoing is an interesting story and it is accurately reported in the opinion and findings of the trial court on the original infringement suit. One finding (now binding on this court) reads as follows:

"'Defendant, Ira J. McCullough, acquired his knowledge of outside cutters while in the employ of plaintiff, Baash Ross Tool Company. Defendant left the employ of Baash Ross Tool Company and commenced working on outside cutters and applied for United States Letters Patent thereon. Defendant knew the Reilly and Stone Patent in suit when he designed and made outside pipe cutters like the devices shown in Defendant's Exhibit C., and Defendants' Exhibit D. Both of these devices have all of the elements of the combination in the same cooperative relationship, and accomplish the same result in the same way as does the device of the patent in suit.'

"In its Opinion in that case the trial court said (50 USPQ 12, 15, 16):

"'* * * The background of the defendant, Ira J. McCullough, shows the acquisition of knowledge in the art in the employ of one of the plaintiffs, the Baash-Ross Tool Company. The device manufactured is, in all respects, similar to the device of the plaintiffs.

* * * * * * * *

"'* * * The defendant, Ira J. McCullough, having learned the art in the employ of one of the plaintiffs, who manufactured this device for many years, both under the patent in suit and the Kammerer patents, cannot escape the penalties of infringement by manufacturing, according to the teachings of the

patent, a device which, while containing all the elements of the claims in suit, operates in a manner which, although not used by the plaintiffs in their device, is claimed and taught by the patent.'

"So it plainly appears that appellant did not exercise his 'inventive genius'—he did not stoutly resist wicked efforts of appellees to crush some 'competitive force' within him which might have inspired and stimulated him to invent a tool far superior to the Kammerer tool. On the contrary he busied himself in the work of preserving and promoting his own special brand of 'free enterprise' by calmly appropriating another man's original and patented idea.

"No wonder the court hastens to assure us that the fact that 'neither party was harmed' by the Kammerer-Baash license agreement is 'irrelevant.' On this record it faced an impossible task in trying to show that appellees had harmed appellant. The shoe was on the other foot. I suggest that 'public interest' would have been served in an admirable manner had appellant found in the Kammerer tool a great inspiration to invent a much superior device and then succeeded in doing it. * * *"

The majority opinion erroneously states that:

"The district court found at the trial on the issue of infringement that the licensee had a *monopoly* of the field of pipe cutting in the United States, all other cutters being supplanted by the cutter of which it had the patent monopoly. (Emphasis supplied.)

"Nothing could more discourage inventors or manufacturers of better competitive cutters than to take from them the patronage of the only person then using or cutting with the only device used in cutting broken pipe in all the oil fields of the United

States. While it is true that this exclusive occupation of cutting in all these fields arose after the making of the challenged contract, what was *aimed* at by the contracting parties was just such success. What they *feared* is shown by the challenged covenants, withdrawing both parties from the field of inventing or using competitive devices." [R. IIa, 98; 76 USPQ at 504-5.]

Of this the dissenting opinion points out:

"There is nothing in the foregoing comments of the court which demonstrates in any manner that the *size* of appellees' pipe cutting operations was illegal *per se,* or was the result of illegal practices of appellees which restrained or suppressed competition. Therefore, I conclude that the court is of the view that appellees, as a matter of law, became authors and operators of an illegal monopoly merely because their superior tool was so popular with users of such a device that they refused to use other cutters.

"The court lays emphasis on the fact that *inventors or manufacturers of* (other) *better competitive cutters* became *discouraged* over this competitive situation since it served *to take from them* the patronage of persons using such devices. What is legally or morally wrong in acquiring business *in great volume* if the *process of acquisition* is wholly within the law? Since when has popularity of a product become a crime? In this case, the large volume of business flowing to appellees may have 'discouraged' the 'inventors or manufactures of better competitive cutters,' but this was the natural and inevitable result of offering a superior tool to users. How does the 'discouragement' of these competitors, arising from their inability to retain trade going to a su-

perior product, become a violation of law or involve any aspect of 'public policy'?" [R. IIa, 113; 76 USPQ at 511.]

Reference is here made to the District Court's finding 11 [R. III, 116] that the Reilly and Stone "device has displaced all *prior* devices in cutting and removing frozen or stuck drill pipe and tubing from wells." This is not a finding of "monopoly" in the sense of the anti-trust laws or in the sense of its use in the foregoing quotation from the majority opinion, *i. e.,* that "The district court found on the issue of infringement that the licensee had a *monopoly* of the field of pipe cutting." If it were, it would be a legal monopoly under the patent, and such patent monopoly would repudiate the court's assumption that it establishes as illegal *per se* any provision of the license contract. If it be true that "this exclusive occupation of cutting in all these fields" was due to the Reilly and Stone cutter supplanting all other cutters, the legality of the license contract stands out unchallenged. It is impossible under such a state of facts to understand what is imputed by the above quoted statement from the majority opinion.

The dissenting opinion states [R. IIa, 111-12; 76 USPQ at 510-11]:

> "Other practical matters deserve attention. Kammerer did not 'withdraw' from 'competition' in its 'field.' The admitted fact is before us that Kammerer never had a field of operations and it never competed, or attempted to compete with any one. It was apparently a 'paper corporation' expressly created for the one and only purpose of holding the Kammerer patent or patents here involved—it was not, and never was, a manufacturing and/or selling company.

"Another aspect of this case presents itself. For all this court knows, there may have been dozens of (patented and unpatented) pipe cutting devices on the market all available to oil well operators all over the world. That this is assumed by the court appears from its conclusion that competitors of the Kammerer tool were 'discouraged' because the Kammerer tool had supplanted these competitive tools in general use.

"Such considerations suggest pertinent inquiries. How does this agreement, *on its face,* purge, or tend to purge, the market of all such competing devices (as in the Lock Washer case, *supra*)? Where in the contract are the provisions, which in themselves, would actually create an unlawful monopoly in a business field? The court postulates the existence of an illegal 'monopoly' by an inference arising solely from the face of the agreement—not from the evidence in the case. It has to *assume* the existence of *some* competition which was illegally restrained and/or suppressed by means of the Kammerer-Baash agreement. If actual or potential competition was not restrained or suppressed by the Kammerer-Baash agreement, why strike down the agreement? Actual legal restraint or suppression of competition, as a *fact* in this case, has not been established by evidence. * * *"

The majority opinion emphasizes and stresses the extent of the licensee's business with the patented Reilly and Stone cutter. It emphasizes the size and volume of such business. All of this would be properly considered if the court had before it the issues of invention and infringement, but, as said in the opinion of the court in *United States v. Line Material Co.,* 92 L.ed. Adv. Op.

510: "* * * there can be no objection, on the score of illegality, either to the mere size of such a group or the thoroughness of its research." (p. 525) "It is not the cross-licensing to promote efficient production which is unlawful." (p. 528)

As pointed out in the dissenting opinion:

> "It is a significant and interesting fact that no case has been cited to us which is 'on all fours' with the case at bar. So in order to plaster this license agreement with badges of illegality, said to clearly appear on its face, this court turns to and lifts quotations from cases dealing with totally different states of fact. Employing this process of analogy, it concludes that the instant agreement, *per se,* is legal proof that the parties thereto deliberately contracted and agreed to engage in the activities, and commit the various legal sins, found to be present, and constituting the dominant legal issue in, such cases * * *." [R. IIa, 110; 76 USPQ at 510.]

The gravamen of *National Lockwasher Co. v. George K. Garrett Co.,* 137 F.2d 255 (C.C.A. 3), was the covenant exacted from its licensees that they "will not manufacture any other form of non-tangling spring washers except those covered by the patent in suit (*Id.,* p. 256, col. 1). An industry-wide suppression of all competition by non-infringing lockwashers was purposed and effected; the patentee was "attempting by means other than that of free competition to extend the bounds of its lawful monopoly to make, use and vend the patented device to the extent where such device would be the only one available to a user of such an article" (*Id.,* p. 256, col. 2). However, that court did not rest its judgment upon illegality of the license contracts *per se.* The court referred to

the finding of the master, and said: "But we think that the finding together with uncontroverted evidence found in the record is sufficient for our conclusion" (*Id.*, p. 257, col. 1). "We think this is enough; enough to show that the plaintiff was using its patent to suppress competition with it by non-patented articles. To the extent that the policy was successful the supply of competing non-patented washers would, of course, disappear." (*Id.*, p. 257.) The majority opinion herein does not rely upon any proof in the record of any such facts, nor upon any proof of any similar use of the patent in suit. The case at bar is not one in which any such domination of an industry was either purposed, intended or effected. This Court in *United States v. Line Material Co.*, 92 L.ed. Adv. Op. 510, 527, in commenting upon *Standard Oil Co. v. United States*, 283 U.S. 163, stated: "This domination was thought by this Court not to have been proven." Thus its *assumption* by the majority opinion of the Circuit Court of Appeals herein is in conflict with *Standard Oil Co. v. United States*. There is therefore direct conflict of decision between *Standard Oil Co. v. United States* and *United States v. Line Material Co.*, on one side, and the majority opinion herein, respecting the necessity of proof of facts establishing unreasonable restraint of competition. This conflict also exists with the opinion of this Court in *United States v. United States Gypsum Co.*, 92 L.ed. Adv. Op. 552, wherein, like in *National Lockwasher Co. v. George K. Garrett Co.*, the illegal restraint extended to an entire industry: "Even in the absence of the specific abuses in this case, which fall within the traditional prohibitions of the Sherman Act, it would be sufficient to show that the defendants, constituting all former competitors in an entire industry, had acted in

concert to restrain commerce in an entire industry under patent licenses in order to organize the industry and stabilize prices." (p. 571)

The dissenting opinion herein points out that [R. IIa, 118; 76 USPQ 513-14]:

> "The distinction between the *facts* in this case and those in the Lock Washer case, *supra*, is very marked. That case involved a contractual combination embracing at least six manufacturing concerns all coldly bent upon the creation of a stifling monopoly in an entire field which (under the facts disclosed at trial) *was deliberately fashioned and designed to purge the entire market of competition.* No such design, purpose, ability or attempt to monopolize and to 'purge' the market of *all or any competitors* was shown in this case. Here the findings of the trial court indicate the exact contrary to be true. In fact, the findings and conclusions (supported by the evidence) repel the charge and the conclusion that the business operations of appellees were monopolistic in character, or were designed to, or achieved results of that nature."

The majority opinion finds nothing in this case to support respondent's original contention that the license agreement was illegal because of price fixing. Such opinion states:

> "We construe this contract to mean that where there was a rental of the use of a cutter to an oil driller, the $190 received was part of the licensee's gross earnings to be divided equally with the licensor. Where the licensee itself used the device on the property whose oil wells it served, the charges for services and use were conditions to the gross earn-

> ings to be equally divided. *We can see no public harm in such an agreement.*" (Emphasis supplied.) [R. IIa, 105; 76 USPQ 507-8.]

No other price fixing was even contemplated by the license agreement. Thus the Circuit Court of Appeals is found to have unanimously held that no illegal price fixing existed or was contemplated by the license agreement.

The majority opinion of the Circuit Court of Appeals therefore cannot be grounded upon, but is in conflict with *United States v. Line Material Co.*, 92 L.ed. Adv. Op. 513, wherein the opinion of this Court says (p. 526):

> "If the objection is made that a price agreement between a patentee and a licensee equally restrains trade, the answer is not that there is no restraint in such an arrangement but, when the validity of the General Electric case is assumed, that reasonable restraint accords with the patent monopoly granted by the patent law."

This Court heretofore granted certiorari in this case upon the petition of respondents herein, and such writ was subsequently dismissed as improvidently granted (323 U.S. 328). In the petition and in the petition for rehearing the denial of such petition, respondents herein:

(1) Asserted that this case presents a conflict "with the decision of the Circuit Court of Appeals for the Third Circuit in *National Lockwasher Co. v. George K. Garrett Co., Inc.*, 137 F.(2d) (1943), and" is "also inconsistent with the *rationale* of prior decisions of this Court and of the Circuit Court of Appeals for the Ninth Circuit" (Petition for Rehearing, p. 3);

(2) Represented to this Court that "There are undoubtedly thousands of patent license agreements which include provisions restraining the licensee, or the licensor, or both, from making, using or selling *competitive* apparatus" (Brief in Support of Petition, p. 24);

(3) Urged that the questions herein are "of such vital interest and general importance that it should be settled by this Court" (*Id.*, p. 24); and

(4) Asserted as one of the "REASONS FOR GRANTING THE WRIT" that "Important questions[3] of general public interest on patents and the Anti-Monopoly laws, set forth as 1, 2, 3 and 4 under the preceding heading, involving an expansion of the doctrine announced by this Court in *Morton Salt Co. v. G. S. Suppiger Co.*, and other cases, have not been, but should be, settled by this Court" (Petition, p. 9).

The importance of authoritative determination of the questions presented by the petition herein is pointed out in the dissenting opinion herein:

> "It is easy to marshal an imposing array of cases which proclaim the mournful fact that the 'monopoly' of the patent grant was abused by business practices shown in those cases. The cases cited by the instant opinion generally fall into this category. I think that they lend no weight to the conclusion we reach since they deal with factual situations not even distantly related to the facts in this case. *In the instant case, the facts are shunted into the de minimis class.* I think that it will be found that in practically all of these cases, the courts immediately came to grips

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[3]These questions are reproduced in a footnote to page 3 of the petition herein.

with the facts, and the logic of this sort of approach is apparent. One excellent reason lies in the fact that no rule has yet been devised by the wit of courts which could be applied to all factual situations. Obviously this calls for a careful delineation of the facts against which even a well recognized rule should be applied." (Emphasis supplied.) [R. IIa, 118; 76 USPQ at 514.]

Conclusion.

It is respectfully submitted that this Court, in the exercise of its discretion, should grant a Writ of Certiorari as prayed and should determine the questions involved as set forth in the Petition herein; that the decision of the majority of the Circuit Court of Appeals is in conflict with the decisions of this Court and of the Circuit Courts of Appeals as herein pointed out; that the Anti-Trust laws do not extend to all restraint of trade but are applicable only to unreasonable restraints; that the covenants of paragraphs 11 and 12 of the license agreement are not illegal *per se,* and are not substantially prejudicial to the public interest as stifling new competitive invention or suppressing competitive forces which stimulate newer and better products, and do not "strike at the very purpose of the (patent) statute and its constitutional basis"; that these questions are of grave public importance and require an authoritative adjudication by this Court.

Respectfully submitted,

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In the Supreme Court of the United States

OCTOBER TERM, 1948

No. 60

KAMMERER CORPORATION, a Corporation, and BAASH-ROSS TOOL COMPANY, a Corporation,

Petitioners,

vs.

IRA J. McCULLOUGH,

Respondent.

Brief for Respondent in Opposition to Petition for Writ of Certiorari

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In the Supreme Court of the United States

OCTOBER TERM, 1948

No. 60

KAMMERER CORPORATION, a Corporation, and BAASH-ROSS TOOL COMPANY, a Corporation,

Petitioners,

vs.

IRA J. MCCULLOUGH,

Respondent.

Brief for Respondent in Opposition to Petition for Writ of Certiorari

OPINIONS BELOW

The opinion of the Circuit Court of Appeals for the Ninth Circuit, and the dissenting opinion (II-A R. 5-28) are reported in 166 F.(2d) 759. The opinion of the District Court (I R. 46) is unreported. Earlier opinions in these suits are reported in 331 U.S. 96, 323 U.S. 327, 156 F.(2d) 343, 148 F.(2d) 525, 138 F.(2d) 482 and 39 F. Supp. 213.

JURISDICTION

These are two suits, which were consolidated for trial (III R. 21),* brought by Petitioners against Respondent claiming infringement of Kammerer Patent No. 1,277,600 and Reilly and Stone Patent No. 1,625,391, but later dismissed as to the Kammerer Patent, and seeking an injunction, accounting and damages (III R. 14-15, 26). The judgment of the Circuit Court of Appeals dismissing the complaints on the merits was entered on February 26, 1948 (II-A R. 29). Jurisdiction is invoked under Section 240(a) of the Judicial Code, as amended by the act of February 13, 1925 (28 U.S.C. 347), and under the Act of July 2, 1890, C. 647, Sec. 1, 26 Stat. 209 (15 U.S.C. Sec. 1).

STATEMENT OF THE CASE

The Proceedings Herein

The history of this litigation, now before this Court for the third time, is adequately set forth in Petitioners' brief, at pp. 2-6. The immediate proceeding results from the judgment of the Circuit Court of Appeals dismissing the complaints, on the ground that Petitioners had misused the Reilly and Stone patent in a manner prejudicial to

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*Respondent has not been served with a complete copy of the Record as now filed in this Court. Volume and page references to the record herein are therefore made in accordance with a letter from Petitioners' Attorneys stating that the following pagination is now used:

Volume I	Pages 1 to 56, inc.
Volume II	Pages 57-87, inc.
Volume II-A	Pages 1-30, inc.
Volume III	Pages 1-498, inc.
Volume IV	Pages 499-743, inc.
Volume V	Pages 744-894, inc.
Volume VI	Omitted
Volume VII	Pages 1099-1182, inc.

the public interest and hence were not entitled to an accounting and damages.*

The Facts

The principal facts relevant to the questions before this Court are relatively simple and are established by uncontradicted evidence, which came largely from Petitioners' own witnesses.

Petitioner Kammerer Corporation is the owner and licensor of the Reilly and Stone patent. Petitioner Baash-Ross Tool Company is the exclusive licensee under this patent (III R. 7-11).

Kammerer, a stockholder and principal officer of Kammerer Corporation, had, before the formation of Kammerer Corporation, invented and patented a tool for cutting and removing stuck drill pipe from oil wells and had licensed its manufacture and operation, and extensive use of it had been made (III R. 252-5, 269-72). Reilly and Stone, stockholders and officers of the subsequently formed Kammerer Corporation, had also invented, and filed a patent application on, a tool which was an improvement on the Kammerer tool (III R. 154, 205-6, 278). Kammerer contended that the Reilly and stone tool infringed his patent (III R. 201, 253-5, 272). After a controversy and negotiations, Kammerer and Reilly and Stone formed Kammerer Corporation, one of the Petitioners herein, and assigned their respective inventions and patent and patent applications to it, including the Reilly and Stone application on which the Reilly and Stone patent subsequently issued (III R. 162-3, 209, 255-6, 260-1, 272-3, 282). They became the sole stockholders of Petitioner Kammerer

*The Reilly and Stone patent having previously expired, the question of an injunction had become moot.

Corporation, and became its president and manager, secretary and vice president, respectively (III R. 204, 209, 255, 263, 275; Petitioners' brief, pp. 15-16).

Baash was instrumental in causing the patent controversy to be composed because he desired for his company a license for the devices (III R. 282). Although Reilly and Stone were, at the time of the application for their patent, employed by Baash's company as foreman and machinist, respectively, despite the insinuation of Petitioners, neither Baash nor his company claimed any interest in or rights with respect to the device. In fact, Baash testified that it was not the policy of himself or his company to do so (III R. 154, 281).

Upon the formation of Petitioner Kammerer Corporation and the assignment of the Kammerer patent and the Reilly and Stone patent application to it, "Mr. Baash made the offer that he would pay us 50 per cent and the Baash Company would take 50 percent" (III R. 256). Baash testified that he "offered to build the tool, operate it and pay them 50 percent of the gross receipts of all rental tools, and all sales to foreign countries" (III R. 282). Thereupon, Baash-Ross Perforating Company, predecessor in interest of Petitioner Baash-Ross Tool Company, received a license under these patents (I R. 5-11; III R. 255-6, 261, 282; V R. 854-8; Plaintiffs' Ex. 7). By the license agreement, the licensor granted to the licensee the exclusive right and license to manufacture and use, but not to sell, devices embodying inventions under such patents. Among other provisions, the license agreement contained the following terms, to which attention is specifically directed:

First, it was provided in paragraph 11 that:

> "The Licensee covenants and agrees during the term of this license agreement not to manufacture or use or rent *any device which will be in competition with the device or devices covered by this license agreement,*"*

and in paragraph 12 it was provided that:

> "The Licensor covenants and agrees that during the term of this agreement, not to manufacture, sell, rent, license, use or in any way do business with the device or devices covered by this agreement *or with devices which will come or be in competition with the device or devices covered by this agreement.*"

Second, by paragraph 3, it was provided that:

> "The Licensee covenants and agrees during the term of this license to charge as a rental for the use of said device or devices the sum of One Hundred and Ninety Dollars ($190.00) per cut made by said device or devices."†

And in paragraph 14, which permitted further licensing of the devices if the licensee did not take care of the demand for the devices, it was provided that:

> "nothing in this paragraph contained shall give the Licensor or its licensee or licensees the permission to alter the prices fixed by this license agreement for the use of the devices covered hereby."

Thus, not only were prices fixed with respect to devices made under the Kammerer and Reilly and Stone patents, but both the licensor and the licensee, Petitioners herein,

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*The italics throughout this brief are ours.

†The devices were valued in the license agreement at $300 (V R. 858).

without limitation, agreed not to manufacture or use (or sell in this country) any devices whatsoever which might be in competition with the Kammerer, and Reilly and Stone devices.

Operating under this license agreement, Petitioner Baash-Ross Tool Company (including its predecessor in interest), one of the most important manufacturers and users of oil well drilling and fishing tools, has "widely and extensively used" the patented devices in "all the principal oil fields of the United States" (III R. 115) and has sold them in foreign countries (III R. 177, 257, 287, 283-5), and over $2,000,000 have been collected by Petitioners for rental of the patented tools (V R. 859-869). Prior to the license agreement, Petitioner Baash-Ross Tool Company and its predecessor had employees who made inventions (III R. 251). The company dealt with other types of cutters and had handled many fishing tools (III R. 203-4; IV R. 723), and a large number of other cutters were available. Subsequent to the license agreement, Petitioner Baash-Ross Tool Company, and its predecessor in interest, abandoned the use of all drill pipe cutters other than the licensed cutters and dealt exclusively in those devices (III R. 22-3, 116, 257, 286).

The foregoing facts are not only fully supported by the evidence, but are substantially undisputed by Petitioners.

The Decision of the Circuit Court of Appeals

On the basis of the foregoing facts, the Circuit Court of Appeals dismissed the complaints on the merits, on the ground that:

> "the evidence establishes that the licensing contract and the operations thereunder substantially preju-

diced the public interest in that they stifled new competitive invention and suppressed competitive forces which stimulate newer and better products, and that the contract's covenants strike at the very purpose of the statute and its constitutional basis. Neither the Kammerer Corporation nor the Baash-Ross Tool Company is entitled to damages for McCullough infringement and the interlocutory judgment for damages and an accounting is reversed and the complaints are ordered dismissed" (166 F.(2d) at 764; II-A R. 14).

With respect to an issue which Petitioners sought to conjure out of the Record, the Circuit Court of Appeals stated:

"We do not agree that the evidence supports the lower court's finding that the licensing agreement created a joint venture" (166 F.(2d) at 763; II-A R. 11).

It further held that:

"Even had this patent licensing contract created a joint venture, the sharing of profits and losses is no ground for protecting them by agreements against the public interest" (166 F.(2d) at 764; II-A R. 12).

REASONS FOR DENYING THE WRIT

The judgment of the Circuit Court of Appeals dismissing the complaints, on the ground of misuse of the Reilly and Stone patent, is plainly right. Contrary to the claim of Petitioners, it is entirely in accord with prior decisions of this and other Federal courts, and it involves no extension of well established doctrine, as we shall demonstrate below. Hence there would not appear to be any sound reason for the issuance of the writ.

Respondent's contention that Petitioners have misused the patent in suit and are, therefore, not entitled to any relief for the alleged infringement of the patent, rests principally on the inclusion in Petitioners' license agreement of two illegal covenants or conditions: first, the covenants of both Petitioner licensor and Petitioner licensee not to deal in any device whatsoever competitive with the licensed devices; second, the price-fixing covenants, which fixed the charge which Petitioner licensee was required to make for its exploitation of the licensed devices under the pooled patents of Kammerer and Reilly and Stone. Either one of such license provisions suffices to establish misuse of the patent and a violation of the anti-trust laws. And, while we believe that none of Petitioners' arguments in support of such provisions is well founded, it is sufficient to deny the writ if we are correct in our contentions as to any of them.

1. The Covenants of Petitioners Not to Deal in Devices Competitive with the Licensed Devices Constituted a Misuse of the Patent in Suit and Were Illegal.

The Petitioner licensee covenanted in paragraph 11 of the agreement

> "* * * during the term of this license agreement not to manufacture or use or rent any device which will be in competition with the device or devices covered by this license agreement,"

and the Petitioner licensor assumed, in paragraph 12, a reciprocal but more onerous obligation.

It is thus apparent on the face of the license agreement that the reciprocal covenants not to deal in competitive devices went beyond the patented devices licensed

under the agreement and applied to any competing device whatsoever. As a condition of the granting and taking of the license for the patent in suit Petitioners debarred themselves wholly and unconditionally from dealing in devices competing with the licensed devices, irrespective of whether the competing devices were unpatented, were patented by others, or even by the parties themselves. Of particular significance in this connection is the fact, noted by the Circuit Court of Appeals, that the parties really involved were inventors (II-A R. 7, 10).

The Kammerer Corporation consisted of Kammerer and Reilly and Stone, all inventors, while the Baash-Ross Company had at least 30 employees who made inventions. The company had paid these inventors "several hundred thousand dollars" in bonuses and royalties. In fact, a patent "policy" had been formulated to encourage invention (III R. 281). The restrictive covenants of the license agreement smothered all efforts of these inventors to design new and competitive pipe cutters.

Petitioners attempt to argue that there was no restraint against the inventors who comprised the Kammerer Corporation because the restrictive covenants bound only the the corporation which, as a separate entity, could not invent. This completely ignores the facts which clearly show the corporation to be only the inventors' *alter ego*, made so by the very restrictive covenants preventing it from engaging in other activities. Petitioners admit (Petitioners' brief, p. 16) that it was simply a patent holding company with no other assets or purposes. Since the corporation could not itself invent, it is plain to see that the result was to bind and restrict the inventive efforts of the

only persons owning and controlling the corporation. To restrict competition under these circumstances is to discourage invention. When abuse of the public interest is involved there is no difficulty in looking through form to substance.

Were it necessary to show that a patently illegal covenant proved to be effective, the record in the present case leaves no doubt that those here involved were effective in fact.

Petitioner licensee was one of the more important manufacturers and users of oil well fishing tools, doing a world-wide business (III R. 115, 177, 202-3, 257, 287), and there were available and in common use long before the licensed cutting tools many other similar devices. For instance, Luther Patent No. 111,221, which expired in 1888, Kellogg Patent No. 657,777, Hill Patent No. 1,338,773 and Jones Patent No. 1,454,819, all then expired, show casing or pipe-cutting tools. These and many others were shown and described in the patents, all in evidence, enumerated in a footnote to an earlier opinion in this cause by one of the Circuit Court judges who said that tools for cutting and removing pipe from wells "were in common use long before Reilly and Stone's claimed invention" (138 F.(2d) 482 at 485). Respondent's Patent No. 2,133,628 (V R. 887-891) is for an apparatus for externally cutting stuck drill pipe which is really superior to that disclosed in the Reilly and Stone Patent (IV R. 657-8, 679-84), as found by the Circuit Court of Appeals in an earlier opinion in this cause (138 F.(2d) 482 at 484).

Prior to acquiring the license under the Reilly and Stone invention, Petitioner Baash-Ross Tool Company had other

cutters (III R. 204; IV R. 723) and handled many other fishing tools (III R. 203). Since the license agreement, Petitioner Baash-Ross Tool Company has collected over two million dollars in royalties for rental of the patented tool (III R. 283-5; V R. 859-69), has abandoned all other forms of cutters and has used the licensed cutters exclusively (III R. 22-3, 257). The District Court found that the Reilly and Stone tool had "displaced all prior devices in cutting and removing frozen or stuck drill pipe and tubing from wells" (III R. 110, 116). And Kammerer Corporation has not exploited any other cutters, although the Driscoll Patent No. 1,253,015 for a cutting tool was acquired by the corporation (III R. 200-202, 256, 273), and a second Kammerer Patent No. 1,625,414 (III R. 464-465; V R. 882-5) had issued. These are undisputed facts.

Petitioners' contention that the reciprocal covenants imposed no restriction on any member of the public who might use the patented devices or on any user of similar devices, is only partly true, and to the extent true, beside the mark. The covenants certainly did prevent Petitioners from using competitive devices and prevented the owners of other devices from licensing, leasing or selling such other devices to the Petitioners. It also prevented Petitioners, themselves, from making, using, renting or selling any cutting tools which were improvements over the devices covered by the license agreement. The fact that users of fishing tools other than Petitioners were not restricted in their use of competing devices and were free to lease the patented devices from Petitioners is true so far as it goes, but it does not mitigate the restriction

placed by Petitioners on their own use of competitive devices. Nor does it alter the fact that the public could not obtain from Petitioners the benefits of other and competing cutters.

On the basis of a substantially identical covenant not to compete and other evidence similar to that involved in the instant case, the Circuit Court of Appeals for the Third Circuit, in *National Lockwasher Company v. George K. Garrett Co., Inc.*, 137 F.(2d) 255 (1943),* which was a suit for patent infringement, dismissed the complaint, saying:

> "We think the instant case, on the facts as the defendant represents them, falls within the principle of the cases cited to the extent that the patentee is using the lawful monopoly granted by the patent as a means of suppressing the manufacture and sale of competing unpatented articles. It is not creating for itself a monopoly for unpatented goods, as in some of the cases cited. But it is attempting by means other than that of free competition to extend the bounds of its lawful monopoly to make, use and vend the patented device to the extent where such device would be the only one available to a user of such an article. This monopoly is obviously not covered by the patent. A patentee's right does not extend to the use of the patent to purge the market of competing non-patented goods except, of course, through the process of fair competition" (at p. 256).

Petitioners' purported distinction of the *National Lockwasher* case (Brief pp. 30-3) is entirely without substance.

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*The *National Lockwasher* case was recently cited with approval by the Circuit Court of Appeals for the Third Circuit in *Pyrene Manufacturing Co. v. Urquhart et al.*, ...F.(2d) ....; 77 U.S.P.Q. 492 (May 18, 1948).

There was no finding in that case that an industry-wide suppression of competing devices was effected. The finding was merely to the effect that similar conditions were contained in license agreements with five manufacturers. 137 F.(2d) at 257. Nor was there any indication in the opinion of any evidence to show a specific intent by the licensor to exclude competitors. The facts recited by the Court as the basis for its conclusion of illegality were merely the existence and contents of the license agreements and the existence of alternative or competitive devices. On the basis of these facts alone the Court concluded:

> "We think this is enough; enough to show that the plaintiff was using its patent to suppress competition with it by non-patented articles. To the extent that the policy was successful the supply of competing non-patented washers would, of course, disappear" (at p. 257).

In the present case the Reilly and Stone tool had displaced all prior devices in cutting and removing frozen or stuck drill pipe from wells (III R. 110, 116). It can hardly be contended that there is any difference under the anti-trust laws between the legality of a suppressive covenant applied to five manufacturers of unknown aggregate size and as applied to the dominant factor in this industry (II-A R. 7). Furthermore, in *Mercoid Corporation v. Mid-Continent Investment Company et al.*, 320 U.S. 661 (1944), the restrictive covenant in only a single exclusive license agreement violated the anti-trust laws.

The decisions of this Court principally relied on by the Circuit Court of Appeals for the Third Circuit in the

National Lockwasher case, clearly establish that the patentee may properly grant licenses only on terms consistent with the limited scope of its patent monopoly, and that it constitutes a misuse of the patent for the patentee to use the leverage thereof to restrain trade in products not covered thereby. *Transparent-Wrap Machine Corp. v. Stokes & Smith Co.*, 329 U.S. 637 (1947); *Mercoid Corporation v. Mid-Continent Investment Company et al.*, 320 U.S. 661 (1944); *B. B. Chemical Company v. Ellis et al.*, 314 U.S. 495 (1942); *Morton Salt Company v. G. S. Suppiger Company*, 314 U.S. 488 (1942); *Ethyl Gasoline Corporation et al. v. United States*, 309 U.S. 436 (1940); *Leitch Manufacturing Company v. Barber Company*, 302 U.S. 458 (1938); *Carbice Corporation of America v. American Patents Development Corporation et al.*, 283 U.S. 27 (1931); *Motion Picture Patents Company v. Universal Film Manufacturing Company et al.*, 243 U.S. 502 (1917). And "the method by which the monopoly is sought to be extended is immaterial." *Mercoid Corporation v. Mid-Continent Investment Company et al.*, 320 U.S. 661, 666 (1944); *United States v. Univis Lens Company, Inc., et al.*, 316 U.S. 241, 251-2 (1942). Moreover, such misuse constitutes a violation of the Sherman Act. *International Salt Company, Incorporated v. United States*, 332 U.S. 392 (1947); *Mercoid Corporation v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944); *Mercoid Corporation v. Mid-continent Investment Company et al., supra.*

As pointed out by the Court in the *National Lockwasher* case, *supra*, the only difference between such a case as the instant case and the cases with which this Court has

previously dealt, is that in the latter, patentee sought to draw to himself a monopoly in unpatented goods, whereas in the instant case the patentee, by attempting to purge the market of competing devices to the extent that he is able, seeks to compel the use only of his own patented device. In both types of cases, however, the patentee attempts to, and does, restrain trade in products not covered by his own patent. Indeed, the license agreement between Petitioners here goes further than in the *National Lockwasher* case in that not only did the licensee agree not to deal in competing devices, but so did the licensor.

Clearly, then, it requires no extension of the doctrine established by the existing decisions of this Court to bring the instant case under it. This case requires merely the application of well-established doctrine to an immaterially different set of facts. Cf. *Pope Manufacturing Company v. Gormully,* 144 U.S. 224 (1892).

The Petitioners' reciprocal exclusionary covenants not to compete constitute not only a misuse of the patents but an unreasonable restraint of trade under the Sherman and Clayton Acts. The covenants are in fact, unlawful *per se. United States v. Columbia Steel Company et al.,* ..... U.S. ..... (June 7, 1948); *International Salt Company, Incorporated v. United States,* 332 U.S. 392 (1947); see *Blount Manufacturing Company v. Yale & Towne Manufacturing Company,* 166 Fed. 555, 560 (D. Mass. 1909). And it is unnecessary for Respondent to show, as Petitioners contend, that a substantial amount of commerce was restrained, *United States v. Yellow Cab Co. et al.,* 332 U.S. 218 (1947). Similarly, the mere showing of an attempted overreaching of the patent monopoly is enough to prove

an abuse of the patent in contravention of public policy. *Morton Salt Company v. G. S. Suppiger Company,* 314 U.S. 488 (1942); *Pyrene Mfg. Co. v. Urquhart et al.,* 69 F. Supp. 555 (E.D. Pa. 1946), aff'd, 77 U.S.P.Q. 492 (C.C.A. 3rd, May 18, 1948). An agreement in restraint of trade is forbidden whether followed by overt acts carrying it into effect or not. *Edward Katzinger Co. v. Chicago Metalic Mfg. Co.,* 329 U.S. 394 (1947).

In fact, the evidence here amply demonstrates that Petitioners' own substantial activities were restrained, and that those activities certainly embraced and affected "an appreciable part" of commerce in the type of device involved which cannot be regarded as "insignificant or insubstantial." *International Salt Company, Incorporated v. United States; United States v. Yellow Cab Co. et al., supra.*

The many cases cited by Petitioners (Petition pp. 10-11; Brief pp. 19-23) as conflicting with the decision of the Circuit Court of Appeals are no wise in conflict with that decision or the legal principles set forth above. Most of these cases are not concerned with patent misuse and are irrelevant to the issues presented in this case. The opinions of this Court, relating to the unlawful extension of patent grants and the fixing of prices, all fully support the judgment of the Circuit Court of Appeals, and the most recent of these opinions are relied on and discussed in this brief.

The insinuation of Petitioners that, prior to the license agreement, Petitioner licensee had some interest in the Reilly and Stone patent is totally irrelevant, even if true. Such an interest, we assume, had it been asserted, would consist of nothing more than a shop right in the invention.

Just why the existence of such a right would make legal the reciprocal covenants of Petitioners not to use any competing devices, Petitioners do not attempt to state. Of course, even if such a right existed, it would not make lawful these exclusionary covenants.

2. The Price Fixing Provisions of the License Agreement Constituted a Misuse of the Patent in Suit and Were Illegal.

The charge of $190.00 per cut, which Petitioner licensee was required to make for its exploitation of the licensed devices was fixed by the license agreement with Petitioner licensor (Par. 3; V R. 855). Prices were thus set on devices covered by both the Kammerer and Reilly and Stone patents. The Kammerer patent, prior to its assignment to Petitioner Kammerer Corporation, was owned by Kammerer, and the Reilly and Stone application, prior to its assignment to Petitioner Kammerer Corporation, was owned by Reilly and Stone. Through the medium of a corporation formed by them Kammerer and Reilly and Stone pooled their patents and jointly licensed them subject to price fixing. Such an arrangement constituted not only a misuse of both patents, but a violation of the Sherman Act by Petitioner licensor, to which Petitioner licensee became a party. *United States v. Line Material Company, et al.*, 333 U.S. 287 (1948). The Court in that case stated:

> "Nothing in the patent statute specifically gives a right to fix the price at which a licensee may vend the patented article. 35 U.S.C. §§ 40, 47. While the *General Electric* case holds that a patentee may, under certain conditions, lawfully control the price the licensee of his several patents may charge for the patented device, no case of this Court has construed

the patent and anti-monopoly statutes to permit separate owners of separate patents by cross-licenses *or other arrangements* to fix the prices to be charged by them and their licensees for their respective products. Where two or more patentees with competitive, non-infringing patents combine them and fix prices on all devices produced under any of the patents. competition is impeded to a greater degree than where a single patentee fixes prices for his licensees. The struggle for profit is less acute. *Even when, as here, the devices are not commercially competitive because the subservient patent cannot be practiced without consent of the dominant, the statement holds good. The stimulus to seek competitive inventions is reduced by the mutually advantageous price-fixing arrangement.* Compare, as to acts by a single entity and those done in combination with others. [citing cases]. The merging of the benefits of price fixing under the patents restrains trade in violation of the Sherman Act in the same way as would the fixing of prices between producers of non-patentable goods.

"If the objection is made that a price agreement between a patentee and a licensee equally restrains trade, the answer is not that there is no restraint in such an arrangement but, when the validity of the *General Electric* case is assumed, that reasonable restraint accords with the patent monopoly granted by the patent law. Where a patentee undertakes to exploit his patent by price fixing through agreements with anyone, he must give consideration to the limitations of the Sherman Act on such action. The patent statutes give an exclusive right to the patentee to make, use, and vend and to assign any interest in this monopoly to others. The *General Electric* case construes that as giving a right to a patentee to

> license another to make and vend at a fixed price. There is no suggestion in the patent statutes of authority to combine with other patent owners to fix prices on articles covered by the respective patents. As the Sherman Act prohibits agreements to fix prices, *any arrangement between patentees runs afoul of that prohibition and is outside the patent monopoly*" (333 U.S. at 311-2).

Here the patentees, by forming the corporation, by jointly licensing the patents and by agreeing to the price fixing of every device under either patent, and thereafter sharing equally in the proceeds from the use of the patented cutters, brought themselves squarely within the stated prohibition. This is true whether or not the corporate entity is considered, for it may not be used as a blind to veil the illegality or to the detriment of the public interest. Petitioner Kammerer Corporation (the business of which admittedly was only the holding and licensing of patents, III R. 6-7, 20-21, 163; Petitioners' brief pp. 15-16), was merely the creature of the owners of the Kammerer and Reilly and Stone patents, who were the sole stockholders and officers of the Corporation. The fact that Kammerer and Reilly and Stone, the inventors, effected the patent aggregation by the formation of a corporation, and not by a cross-licensing agreement such as was done in the *Line Material* case, does not alter the substantial nature of the transaction. *Standard Sanitary Manufacturing Company v. United States,* 226 U.S. 20 (1912). This is made clear by the reference in the above quoted portion of the *Line Material* opinion to "other arrangements," and was further spelled out in the opinion, as follows:

"As early as 1912, in *Standard Sanitary Mfg. Co. v. United States*, 226 U.S. 20, this Court unanimously condemned price limitation under pooled[24] patent licenses. As the arrangement was coupled with an agreement for limitation on jobbers' resale prices, the case may be said to be indecisive on patent license agreements for price control of a product without the jobber's resale provision. No such distinction appears in the opinion. This Court has not departed from that condemnation of price fixing."

"[24] The words 'patent pool' are not words of art. The expression is used in this opinion to convey the idea of a linking of the right to use patents issued to more than one patentee."

The price agreements by Petitioners are unlawful *per se*. *United States v. Line Material Company et al., supra; Morton Salt Company v. G. S. Suppiger Company*, 314 U.S. 488 (1942); *Edward Katzinger Co. v. Chicago Metallic Mfg. Co.*, 329 U.S. 394 (1947); *MacGregor v. Westinghouse Elec. & Mfg. Co.*, 329 U.S. 402 (1947). They present a pure question of law on undisputed facts. Therefore, even though this ground was not relied upon by the Circuit Court of Appeals as a reason for dismissing the complaints* (the *Line Material* case, *supra*, having not been decided at the time of the decision of the Court), it is a ground which may properly be urged in support of the judgment of the Circuit Court of Appeals and which in itself requires denial of the writ.

*The charge of illegality because of price fixing which was rejected by the Court rested upon the asserted fixing of prices not only on the patented devices but on the services of Petitioner licensee's employees, a different basis from that asserted here.

3. Petitioners May Not Enforce the Patent in Suit Because It Has Been Misused Against the Public Interest and in Violation of the Anti-Trust Laws, and the Complaints Were Properly Dismissed.

A long line of decisions of this Court hold, as epitomized in *Mercoid Corporation v. Mid-Continent Investment Company et al.*, 320 U.S. 661, 669 (1944), that

> "It is sufficient to say that in whatever posture the issue may be tendered courts of equity will withhold relief where the patentee and those claiming under him are using the patent privilege contrary to the public interest."

See also, *Morton Salt Company v. G. S. Suppiger Company*, 314 U.S. 488 (1942).

The withholding of relief to the misusing patent owner is equally applicable to a suit seeking an accounting as to a suit merely seeking an injunction. *Mercoid Corporation v. Mid-Continent Investment Company et al.*, 320 U.S. 661, 670 (1944); *Vitamin Technologists. Inc. v. Wisconsin Alumni Research Foundation*, 146 F.(2d) 941 (C.C.A. 9th, 1945), cert. den., 325 U.S. 876 (1945), reh. den., 326 U.S. 804 (1945); *National Lockwasher Company v. George K. Garrett Co., Inc.*, 137 F.(2d) 255 (1943). The fact that the patent has expired is irrelevant. As stated by this Court in the *Morton Salt* case, *supra*,

> "The patentee, like these other holders of an exclusive privilege granted in the furtherance of a public policy, may not claim protection of his grant by the courts where it is being used to subvert that policy" (314 U.S. 494).

For the period of alleged infringement, Petitioners were so using their patent to subvert public policy.

CONCLUSION

For the reasons stated above, it is submitted that the petition for a writ of certiorari should be denied.

Respectfully submitted,

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